

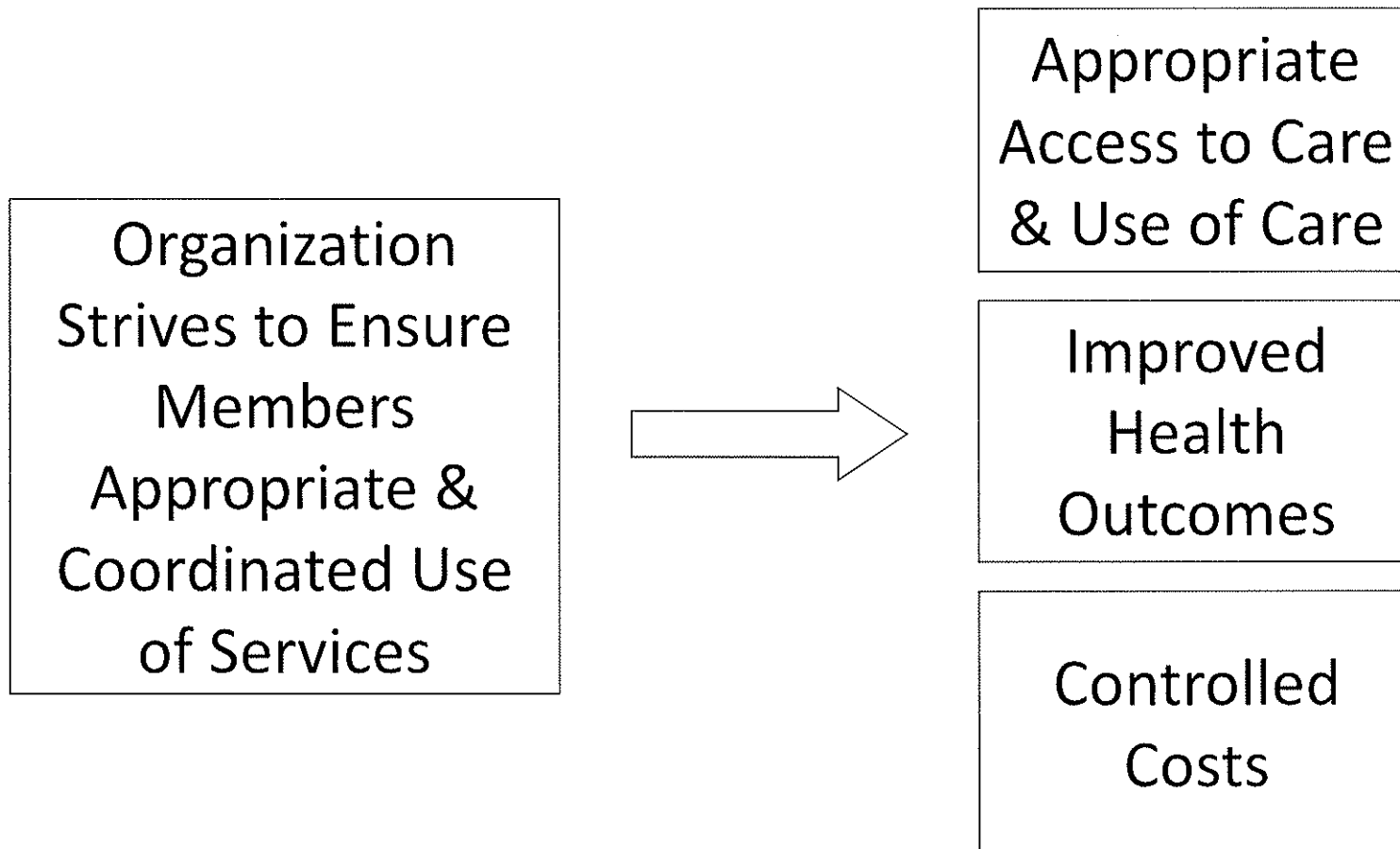


Risk-Based Managed Care

New Hampshire Department of
Health and Human Services

April 2012

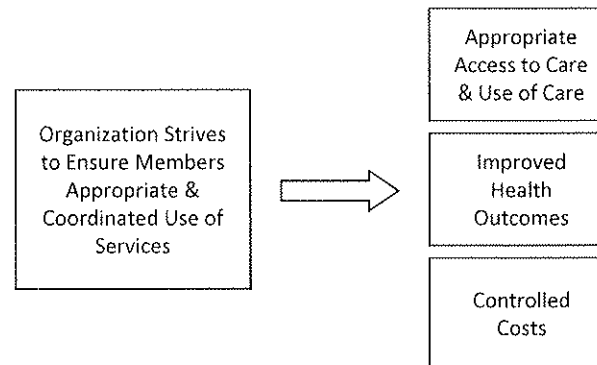
Managed Care



Risk-Based Managed Care



Still managed care...



But with addition of a financial arrangement where the organization provides, or contracts to provide, specific health care services for a defined population for a fixed, prepaid price (like how insurance works).

Risk-Based Example



- State contracts with MCO to provide care for 20 children.
- Contract calls for each MCO to be paid \$100 per month for each child (based on prior experience & actuarial calculations).
- MCO then pays providers to care for children as needed.
- MCO also incurs its administrative costs.



Risk-Based Example

The State pays fixed amount monthly for each child...

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Child 1	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 2	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 3	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 4	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 5	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 6	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 7	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 8	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 9	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 10	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 11	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 12	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 13	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 14	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 15	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 16	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 17	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 18	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 19	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Child 20	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Total	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$24,000

Funds available for MCO to use to serve population during the year



Risk-Based Example

The MCO pays providers and pharmacies for services for each child...

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Child 1	\$0	\$75	\$0	\$0	\$0	\$0	\$0	\$50	\$0	\$0	\$0	\$125	\$250
Child 2	\$9,000	\$500	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$10,000
Child 3	\$125	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$125
Child 4	\$0	\$0	\$0	\$0	\$125	\$0	\$0	\$0	\$450	\$0	\$0	\$0	\$575
Child 5	\$10	\$10	\$10	\$10	\$10	\$125	\$10	\$10	\$10	\$75	\$10	\$10	\$300
Child 6	\$0	\$110	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$110
Child 7	\$0	\$0	\$0	\$0	\$0	\$0	\$125	\$0	\$0	\$100	\$0	\$100	\$325
Child 8	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$150	\$0	\$0	\$0	\$150
Child 9	\$0	\$0	\$1,200	\$0	\$0	\$500	\$0	\$0	\$0	\$0	\$100	\$0	\$1,800
Child 10	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$150	\$0	\$0	\$100	\$250
Child 11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$50	\$2,900	\$0	\$2,950
Child 12	\$0	\$0	\$40	\$0	\$0	\$0	\$0	\$125	\$0	\$0	\$0	\$0	\$165
Child 13	\$155	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$375
Child 14	\$0	\$125	\$0	\$0	\$50	\$20	\$0	\$0	\$0	\$0	\$0	\$0	\$195
Child 15	\$2,500	\$125	\$20	\$0	\$0	\$0	\$0	\$0	\$0	\$60	\$0	\$600	\$3,305
Child 16	\$0	\$0	\$75	\$0	\$0	\$0	\$0	\$75	\$0	\$0	\$300	\$0	\$450
Child 17	\$0	\$0	\$0	\$0	\$0	\$125	\$0	\$0	\$0	\$0	\$0	\$0	\$125
Child 18	\$0	\$0	\$150	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$150
Child 19	\$15	\$15	\$15	\$110	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$275
Child 20	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$11,805	\$980	\$1,580	\$190	\$270	\$855	\$220	\$345	\$845	\$370	\$3,395	\$1,020	\$21,875

Funds spent on provider payments by MCO during the year



Risk-Based Example

And the MCO incurs administrative (non-claim) costs...

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Admin.	\$328	\$178	\$226	\$115	\$122	\$884	\$118	\$128	\$168	\$130	\$372	\$182	\$2,950

Funds spent by MCO on managed care activities, claims processing, and other administrative functions

Leading to the total cost incurred by the MCO for all members...

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
MCO Cost	\$3,183	\$1,158	\$1,806	\$305	\$392	\$10,689	\$338	\$473	\$1,013	\$500	\$3,767	\$1,202	\$24,825

While State costs remain fixed...

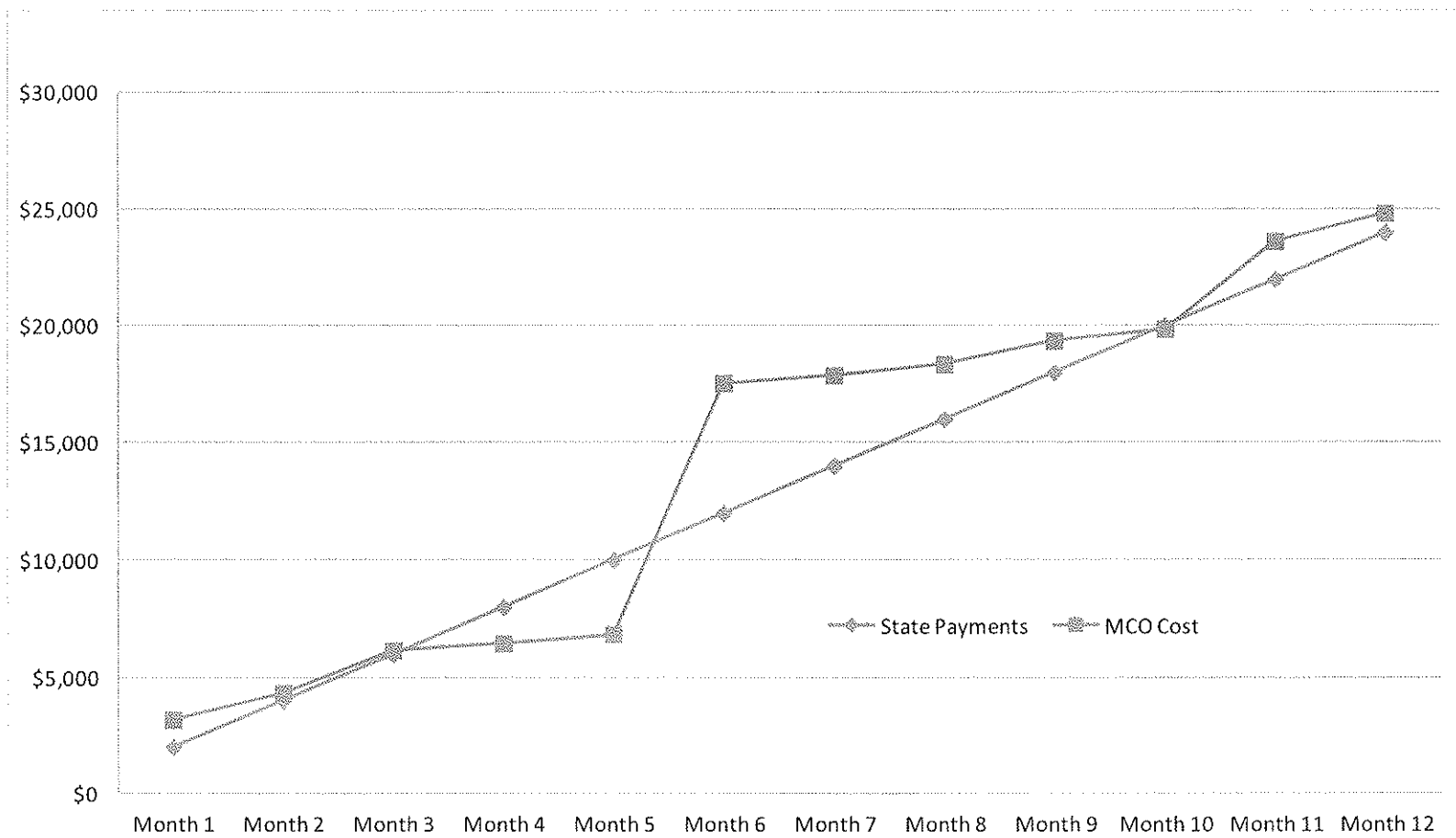
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
State	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$24,000

In example, State pays \$24,000 for year, and MCO spends \$24,825 to serve the members (\$825 loss for MCO). Neither the State, providers, or patients are responsible for this loss, only the MCO. Conversely, MCO keeps all gains it may make.

Risk-Based Example



Cumulative State Payments Compared to MCO Costs...





Summary

- While monthly costs to MCO are variable, State costs stay fixed (some months MCO may have a loss, some months a gain).
- MCOs need sufficiently large membership to average out high and low cost members.
- If members need more services than expected during year, MCO is responsible for fulfilling that need--MCO is at financial risk to deliver the services--MCO has financial incentive to make care more efficient.
- To ensure quality of care and appropriate access to care MCO contracts generally also contain quality and access benchmarks that further put MCO payments at risk.
- MCO holds the risk (all the possible losses and gains), not the State, not the members.

Risk-Based With Multiple MCOs



- With multiple MCOs the potential exists for one MCO to end up with generally less healthy/more complex members than the other MCOs.
- Prior diagnostic history (from claims data) of members can be used to adjust the monthly payment.
- MCOs with less healthy/more complex population can then be paid more than those with comparatively healthier population.
- Process is called Risk-Adjustment.

Risk-Adjustment Example



- State contract with two MCOs calls for payment of \$100 for each member per month.
- State determines MCO#1 is serving a population $1 \frac{1}{2}$ (1.5) times more complex than average and MCO#2 is serving a population $\frac{1}{2}$ (0.5) as complex as average.

Risk-Adjustment Example



Original Rate Per Member	\$100
Number of Members	20
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Total Payment for State	\$2,000

	Risk of Membership	Risk-Adjusted Rates	Members in Each MCO	Monthly Total Payment
MCO #1	1.5	\$150	10	\$1,500
MCO #2	0.5	\$50	10	\$500
Total			20	\$2,000

By risk-adjusting, payments are fairer to each MCO for the population they served, but they still carry risk.